

**FARRAGUT
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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FARRAGUT COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Jeff McQueen	President	2004
Robert Lynn	Vice President	2003
George McGargill		2003
Kelly Carey		2005
Stacie Scroggie		2003
Debbie Dankoff		2005
Randy Schaeffer		2004

(After September, 2003 Election)

Jeff McQueen	President	2004
Robert Lynn	Vice President	2006
Rob Lightfoot	(Appointed October, 2003)	2004
Kelly Carey		2005
Stacie Scroggie		2006
Debbie Dankoff		2005
Randy Schaeffer		2004

SCHOOL OFFICIALS

Jay Lutt	Superintendent
Pam Nebel	District Secretary
Harriette Latimer	District Treasurer

Independent Auditor's Report

To The Board of Education of the
Farragut Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Farragut Community School District, Farragut, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Farragut Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 8 to the financial statements, during the year ended June 30, 2004, Farragut Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 2, 2004 on our consideration of Farragut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Farragut Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 2, 2004

FARRAGUT COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Farragut Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,300,987 in fiscal 2003 to \$2,310,109 in fiscal 2004, while General Fund expenditures increased from \$2,340,873 in fiscal year 2003 to \$2,344,922 in fiscal 2004. The District's General Fund balance decreased from \$1,061,279 in fiscal 2003 to \$1,026,466 in fiscal 2004, a 3% decrease.
- In November 2003, the Governor implemented a 2.5% across-the-board cut in state funding. In June, due to increased state revenues, the Governor restored 10% of the across-the-board cut, resulting in a net cut of 2.25% for the District.
- The District continues to enjoy a solvency ratio above the state average.
- The District received \$30,869 in a federal grant as part of the Rural Education Achievement Program.
- The District's Certified Enrollment decreased slightly from 305.1 students in September 2002 to 299.5 students in September 2003.
- The District receives funds from the Fremont County School Infrastructure Local Option Sales Tax. It was to tuckpoint the building, new fencing and a new phone system among other things in the past year. This helps reduce the property tax burden.
- The State eliminated Phase III Educational Excellence categorical funds, which the District had previously used to provide staff development.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Farragut Community School District

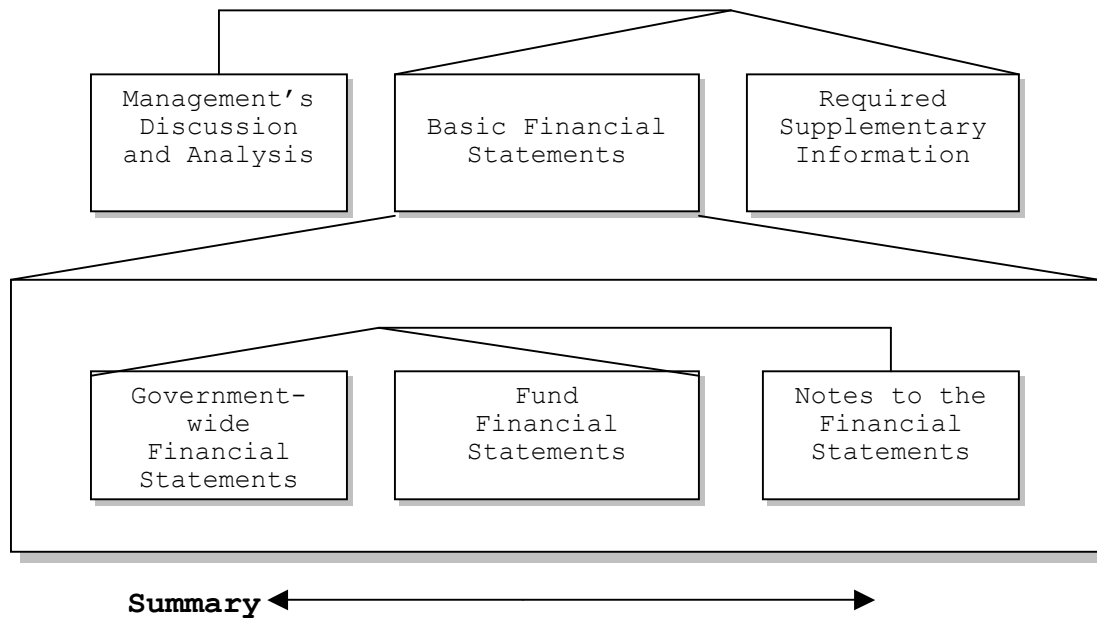


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	2,571	3,070	5	5	2,576	3,075	-16.23%
Capital assets	1,195	1,279	6	7	1,201	1,286	-6.61%
Total assets	<u>3,766</u>	<u>4,349</u>	<u>11</u>	<u>12</u>	<u>3,777</u>	<u>4,361</u>	<u>-13.39%</u>
Current liabilities	1,262	1,649	2	-	1,264	1,649	-23.35%
Non-current liabilities	300	382	-	-	300	382	-21.47%
Total liabilities	<u>1,562</u>	<u>2,031</u>	<u>2</u>	<u>-</u>	<u>1,564</u>	<u>2,031</u>	<u>-22.99%</u>
Net Assets							
Invested in capital assets, net of related debt	895	914	6	7	901	921	-2.17%
Restricted	180	261	-	-	180	261	-31.03%
Unrestricted	1,129	1,143	3	5	1,132	1,148	-1.39%
Total net assets	<u>2,204</u>	<u>2,318</u>	<u>9</u>	<u>12</u>	<u>2,213</u>	<u>2,330</u>	<u>-5.02%</u>

Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, complete prior year comparisons are not available but will be provided in all subsequent years.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	126	55	181
Operating grants, contributions and restricted interest	461	54	515
General revenues:			
Property tax	1,059	-	1,059
Income surtax	87	-	87
Local option sales tax	159	-	159
Unrestricted state grants	788	-	788
Unrestricted investment earnings	14	-	14
Other	11	-	11
Total revenues	<u>2,705</u>	<u>109</u>	<u>2,814</u>
Program expenses:			
Governmental activities:			
Instruction	1,645	-	1,645
Support Services	820	-	820
Non-instructional programs	-	112	112
Other expenses	<u>352</u>	<u>-</u>	<u>352</u>
Total expenses	<u>2,817</u>	<u>112</u>	<u>2,929</u>
Change in net assets	<u>(112)</u>	<u>(3)</u>	<u>(115)</u>

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 84% of the total expenses.

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$2,705,550 and expenses were \$2,799,687.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(Expressed in Thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	1,645	1,152
Support Services	820	816
Other expenses	<u>352</u>	<u>263</u>
Totals	<u>2,817</u>	<u>2,231</u>

- The cost financed by users of the District's programs was \$126,172.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$321,398.
- The net cost of governmental activities was financed with \$1,058,988 in property tax, \$788,166 in state foundation aid, and \$13,841 in interest income.

PROPRIETARY-TYPE FUNDS

Revenues for the District's School Nutrition Fund were \$109,230 and expenses were \$112,309. The revenues include charges for services, contributions, and federal and state reimbursements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Farragut Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$2,204,143, which is 5% less than last year's ending fund balance of \$2,316,511.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the decrease of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- An across-the-board cut by the Governor in state aid reduced revenues in the General Fund.
- The District's enrollment decreased coupled with less than adequate allowable growth as established by the Legislature.
- The District used existing PPEL funds to purchase a new bus, the cost of which exceeded current revenues.

PROPRIETARY FUND HIGHLIGHTS

School Nutrition Fund net assets decreased from \$12,188 at June 30, 2003 to \$9,109 at June 30, 2004.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget disbursements at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. The total budget was not exceeded, however, disbursements exceeded the amounts budgeted in two of the four functions.

CAPITAL ASSETS

The District has invested more than \$3.1 million by the end of fiscal year 2004 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$179,000.

LONG-TERM DEBT

The District had total outstanding bonded indebtedness on June 30, 2004, of \$300,000. The principal and interest on the bonds will be paid in full by June 1, 2008. The District makes principal and interest payments annually on these bonds using sales tax dollars obtained through the school infrastructure local option sales tax levied in Fremont County.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment and inadequate increases in allowable growth will have the most significance on the Districts future.
- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District was on budget guarantee for Fiscal Year 2004 and will continue to be. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- Maintaining a strong solvency ratio will help offset the effects of declining revenues.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jay Lutt, Superintendent, Farragut Community School District, 907 Hartford Ave., Farragut, Iowa 51639.

Basic Financial Statements

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash	1,376,792	1,604	1,378,396
Receivables:			
Property tax:			
Current year	17,973	-	17,973
Succeeding year	953,433	-	953,433
Income surtax - succeeding year	89,160	-	89,160
Due from other governments	17,140	-	17,140
Accrued interest	116,397	-	116,397
Inventories	-	3,300	3,300
Capital assets, net of accumulated depreciation	1,195,423	5,916	1,201,339
Total assets	<u>3,766,318</u>	<u>10,820</u>	<u>3,777,138</u>
Liabilities			
Accounts payable	4,258	-	4,258
Accrued salary and benefits	214,546	1,711	216,257
Accrued interest payable	778	-	778
Deferred revenue:			
Succeeding year property tax	953,433	-	953,433
Succeeding year income surtax	89,160	-	89,160
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	70,000	-	70,000
Portion due after one year:			
Revenue bonds payable	230,000	-	230,000
Total liabilities	<u>1,562,175</u>	<u>1,711</u>	<u>1,563,886</u>
Net assets			
Invested in capital assets, net of related debt	895,423	5,916	901,339
Restricted for:			
Capital projects	180,297	-	180,297
Unrestricted	1,128,423	3,193	1,131,616
Total net assets	<u>2,204,143</u>	<u>9,109</u>	<u>2,213,252</u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction:						
Regular instruction	995,675	116,831	130,547	(748,297)	-	(748,297)
Special instruction	293,751	7,129	101,743	(184,879)	-	(184,879)
Other instruction	356,027	-	137,096	(218,931)	-	(218,931)
	<u>1,645,453</u>	<u>123,960</u>	<u>369,386</u>	<u>(1,152,107)</u>	<u>-</u>	<u>(1,152,107)</u>
Support services:						
Student services	18,856	-	1,430	(17,426)	-	(17,426)
Instructional staff services	77,121	-	-	(77,121)	-	(77,121)
Administration services	376,357	-	-	(376,357)	-	(376,357)
Operation and maintenance of plant services	245,947	-	142	(245,805)	-	(245,805)
Transportation services	101,852	2,212	293	(99,347)	-	(99,347)
	<u>820,133</u>	<u>2,212</u>	<u>1,865</u>	<u>(816,056)</u>	<u>-</u>	<u>(816,056)</u>
Other expenditures:						
AEA flowthrough	87,703	-	87,703	-	-	-
Long-term debt interest	10,804	-	-	(10,804)	-	(10,804)
Long-term debt services	300	-	-	(300)	-	(300)
Facilities acquisition and construction	116,988	-	2,061	(114,927)	-	(114,927)
Depreciation (unallocated) *	136,537	-	-	(136,537)	-	(136,537)
	<u>352,332</u>	<u>-</u>	<u>89,764</u>	<u>(262,568)</u>	<u>-</u>	<u>(262,568)</u>
Total governmental activities	2,817,918	126,172	461,015	(2,230,731)	-	(2,230,731)

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Nutrition services	112,309	55,398	53,832	-	(3,079)
				(3,079)	(3,079)
Total	2,930,227	181,570	514,847	(2,230,731)	(3,079)
					(2,233,810)
General revenues:					
Property tax levied for:					
General purposes			955,071	-	955,071
Management levy			73,693	-	73,693
Capital outlay			30,224	-	30,224
Income surtax			87,455	-	87,455
Local option sales tax			159,323	-	159,323
Unrestricted state grants			788,166	-	788,166
Unrestricted investment earnings			13,841	-	13,841
Other			10,590	-	10,590
Total general revenue			2,118,363	-	2,118,363
Change in net assets			(112,368)	(3,079)	(115,447)
Net assets beginning of year, as restated (note 8)			2,316,511	12,188	2,328,699
Net assets end of year			2,204,143	9,109	2,213,252

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash	1,094,085	170,159	112,548	1,376,792
Receivables:				
Property tax:				
Current year	16,209	-	1,764	17,973
Succeeding year	838,405	-	115,028	953,433
Income surtax - succeeding year	89,160	-	-	89,160
Interfund receivable	12,355	-	-	12,355
Due from other governments	6,224	10,916	-	17,140
Accrued interest	116,397	-	-	116,397
Total assets	<u>2,172,835</u>	<u>181,075</u>	<u>229,340</u>	<u>2,583,250</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	4,258	-	-	4,258
Accrued salary and benefits payable	214,546	-	-	214,546
Interfund payable	-	-	12,355	12,355
Deferred revenue:				
Succeeding year property tax	838,405	-	115,028	953,433
Succeeding year income surtax	89,160	-	-	89,160
Total liabilities	<u>1,146,369</u>	<u>-</u>	<u>127,383</u>	<u>1,273,752</u>
Fund balances:				
Reserved for capital projects	-	181,075	-	181,075
Unreserved	<u>1,026,466</u>	<u>-</u>	<u>101,957</u>	<u>1,128,423</u>
Total fund balance	<u>1,026,466</u>	<u>181,075</u>	<u>101,957</u>	<u>1,309,498</u>
Total liabilities and fund balances	<u>2,172,835</u>	<u>181,075</u>	<u>229,340</u>	<u>2,583,250</u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 1,309,498
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,195,423
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(778)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds.	
Revenue bonds	<u>(300,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 2,204,143</u></u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	1,042,526	159,323	-	103,917	1,305,766
Tuition	123,960	-	-	-	123,960
Other	34,059	2,061	-	130,140	166,260
State sources	999,729	-	-	-	999,729
Federal sources	109,835	-	-	-	109,835
Total revenues	<u>2,310,109</u>	<u>161,384</u>	<u>-</u>	<u>234,057</u>	<u>2,705,550</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	958,656	-	-	85,529	1,044,185
Special instruction	293,751	-	-	-	293,751
Other instruction	226,917	-	-	129,110	356,027
	<u>1,479,324</u>	<u>-</u>	<u>-</u>	<u>214,639</u>	<u>1,693,963</u>
Support services:					
Student services	18,856	-	-	-	18,856
Instructional staff services	77,121	-	-	-	77,121
Administration services	376,357	-	-	-	376,357
Operation and maintenance of plant services	203,847	-	-	42,100	245,947
Transportation services	101,714	-	-	-	101,714
	<u>777,895</u>	<u>-</u>	<u>-</u>	<u>42,100</u>	<u>819,995</u>
Other expenditures:					
AEA flowthrough	87,703	-	-	-	87,703
Long-term debt:					
Principal	-	-	65,000	-	65,000
Interest	-	-	10,938	-	10,938
Services	-	-	300	-	300
Facilities acquisition and construction	-	121,788	-	-	121,788
	<u>87,703</u>	<u>121,788</u>	<u>76,238</u>	<u>-</u>	<u>285,729</u>
Total expenditures	<u>2,344,922</u>	<u>121,788</u>	<u>76,238</u>	<u>256,739</u>	<u>2,799,687</u>

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>(34,813)</u>	<u>39,596</u>	<u>(76,238)</u>	<u>(22,682)</u>	<u>(94,137)</u>
Other financing sources (uses):					
Operating transfers in	-	-	76,238	-	-
Operating transfers out	<u>-</u>	<u>(76,238)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>(76,238)</u>	<u>76,238</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financin sources over (under) expenditures and other financing uses	(34,813)	(36,642)	-	(22,682)	(94,137)
Fund balances beginning of year, as restated (note 8)	<u>1,061,279</u>	<u>217,717</u>	<u>-</u>	<u>124,639</u>	<u>1,403,635</u>
Fund balances end of year	<u>1,026,466</u>	<u>181,075</u>	<u>-</u>	<u>101,957</u>	<u>1,309,498</u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (94,137)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	95,410
Depreciation expense	(178,775)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

65,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

134

Change in net assets of governmental activities (Exhibit B)

\$ (112,368)

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>55,398</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	51,332
Benefits	8,295
Supplies	51,484
Depreciation	<u>1,198</u>
Total operating expenses	<u>112,309</u>
Operating (loss)	<u>(56,911)</u>
Non-operating revenues:	
State sources	1,636
Federal sources	52,168
Interest income	<u>28</u>
	<u>53,832</u>
Changes in net assets	(3,079)
Net assets beginning of year	<u>12,188</u>
Net assets end of year	<u><u>9,109</u></u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	55,398
Cash payments to employees for services	(57,916)
Cash payments to suppliers for goods or services	(43,052)
Net cash (used in) operating activities	<u>(45,570)</u>
Cash flows from non-capital financing activities:	
State grants received	1,636
Federal grants received	43,661
Net cash provided by non-capital financing activities	<u>45,297</u>
Cash flows from investing activities:	
Interest on investments	<u>29</u>
Net (decrease) in cash and cash equivalents	(244)
Cash and cash equivalents beginning of year	<u>1,848</u>
Cash and cash equivalents end of year	<u><u>1,604</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(56,911)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	1,198
Commodities used	8,507
(Increase) in inventory	(75)
Increase in accrued salary and benefits	1,711
	<u>(45,570)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>1,604</u></u>
Non-cash investing, capital and financing activities:	

During the year ended June 30, 2004, the District received federal commodities valued at \$8,507.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trusts
	<u>Scholarships</u>
	\$
Assets	
Cash	<u>31,089</u>
Total assets	<u>31,089</u>
Net Assets	
Reserved for scholarships	<u>31,089</u>
Total net assets	<u><u>31,089</u></u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts <u>Scholarships</u> \$
Additions:	
Local sources:	
Miscellaneous	<u>1,405</u>
Total additions	<u>1,405</u>
Deductions:	
Support services:	
Scholarships	<u>2,658</u>
Total deductions	<u>2,658</u>
Change in net assets	(1,253)
Net assets beginning of year	<u>32,342</u>
Net assets end of year	<u><u>31,089</u></u>

See notes to financial statements.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Farragut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Farragut, Iowa, and agricultural area in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Farragut Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Farragut Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Fremont County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Private Purpose Trust Funds are used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Interfund receivable/payable - At June 30, 2004 the General Fund was deemed to have loaned the Management Fund \$4,524 and the Physical Plant and Equipment Levy \$7,831 to cover cash deficits in a joint bank account.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements in the Non-instructional Program and other expenditures function exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) Cash and Pooled Investments

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 8)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,020	-	-	15,020
Capital assets being depreciated:				
Land improvements	281,712	4,800	-	286,512
Buildings	1,804,568	-	-	1,804,568
Machinery and equipment	977,019	90,610	-	1,067,629
Total capital assets being depreciated	3,063,299	95,410	-	3,158,709
Less accumulated depreciation for:				
Land improvements	140,856	14,326	-	155,182
Buildings	1,096,215	30,995	-	1,127,210
Machinery and equipment	562,460	133,454	-	695,914
Total accumulated depreciation	1,799,531	178,775	-	1,978,306
Total capital assets being depreciated, net	1,263,768	(83,365)	-	1,180,403
Governmental activities, capital assets, net	1,278,788	(83,365)	-	1,195,423
Business type activities:				
Furniture and equipment	16,464	0	-	16,464
Less accumulated depreciation	9,350	1,198	-	10,548
Business type activities capital assets, net	\$ 7,114	(1,198)	-	5,916
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Transportation				42,238
Unallocated				136,537
				\$ 178,775
Business Type activities:				
Food service operations				\$ 1,198

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$83,075, \$80,679, and \$81,341 respectively, equal to the required contributions for each year.

(5) Risk Management

Farragut Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$184,893.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Farragut Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$87,703 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have attained the age of 55. For benefits to be payable, the licensed employee must have completed at least 15 years of full-time service in the district, the last 5 years of which must be continuous employment. The early retirement benefit for each eligible employee is equal to 50 percent of the teacher's current salary. The benefit (for those electing the cash payment option) shall be payable on June 30 (or a mutually acceptable date) following retirement. For those electing the insurance option, the insurance premiums will be paid until the funds are exhausted. Early retirement benefits paid during the year ended June 30, 2004 totaled \$17,022.

(8) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statements Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund			Total
	General	Capital Projects	Nonmajor Special/Revenue	
Net assets, June 30, 2003, as previously reported	\$1,061,279	217,717	124,639	1,403,635
GASB Interpretation 6 adjustments	-	-	17,022	17,022
Net assets, July 1, 2003, as restated for governmental funds	<u>\$1,061,279</u>	<u>217,717</u>	<u>141,661</u>	1,420,657
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,799,531				1,278,788
Accrued interest payable				(912)
Long-Term Liabilities:				
Revenue bonds payable			(365,000)	
Early retirement payable			<u>(17,022)</u>	<u>(382,022)</u>
Net assets, July 1, 2003, as restated				<u>\$2,316,511</u>

(9) Financial Condition

The District's Management Fund had a deficit balance of \$3,273 at June 30, 2004. The District's Physical Plant and Equipment Levy had a deficit balance of \$7,318 at June 30, 2004.

(10) Revenue Bonds Payable

During the year ending June 30, 2004 the District issued revenue bonds of \$365,000 for various infrastructure projects in the District, primarily a new roof. The bonds will be repaid from proceeds of the Fremont County one cent Sales and Service Tax.

<u>Year Ending June 30,</u>	<u>Interest Rates %</u>	<u>Interest \$</u>	<u>Principal \$</u>	<u>Total \$</u>
2005	4.00	9,333	70,000	79,333
2006	2.50	6,532	75,000	81,532
2007	2.85	4,658	75,000	79,658
2008	3.15	<u>2,520</u>	<u>80,000</u>	<u>82,520</u>
Total		<u>\$23,043</u>	<u>300,000</u>	<u>323,043</u>

(11) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	<u>Revenue Bonds</u>
Balance beginning of year	\$365,000
Additions	-
Reductions	<u>65,000</u>
Balance end of year	<u>300,000</u>

Required Supplementary Information

FARRAGUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Variance -</u>
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	1,565,103	55,426	1,620,529	2,308,342	2,308,342	(687,813)
State sources	999,729	1,636	1,001,365	1,188,180	1,188,180	(186,815)
Federal sources	109,835	52,168	162,003	130,000	130,000	32,003
Total receipts	<u>2,674,667</u>	<u>109,230</u>	<u>2,783,897</u>	<u>3,626,522</u>	<u>3,626,522</u>	<u>(842,625)</u>
Disbursements:						
Instruction	1,690,390	-	1,690,390	2,044,000	2,044,000	353,610
Support services	819,995	-	819,995	997,000	997,000	177,005
Non-instructional programs	-	112,309	112,309	-	-	(112,309)
Other expenditures	285,729	-	285,729	245,880	245,880	(39,849)
Total disbursements	<u>2,796,114</u>	<u>112,309</u>	<u>2,908,423</u>	<u>3,286,880</u>	<u>3,286,880</u>	<u>378,457</u>
Excess (deficiency) of receipts over (under) disbursements	(121,447)	(3,079)	(124,526)	339,642	339,642	(464,168)
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(121,447)	(3,079)	(124,526)	339,642	339,642	(464,168)
Balance beginning of year	<u>1,498,239</u>	<u>12,188</u>	<u>1,510,427</u>	<u>1,435,574</u>	<u>1,435,574</u>	<u>74,853</u>
Balance end of year	<u><u>1,376,792</u></u>	<u><u>9,109</u></u>	<u><u>1,385,901</u></u>	<u><u>1,775,216</u></u>	<u><u>1,775,216</u></u>	<u><u>(389,315)</u></u>

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 2,674,667	30,883	2,705,550
Expenditures	<u>2,796,114</u>	<u>3,573</u>	<u>2,799,687</u>
Net	(121,447)	27,310	(94,137)
Other financing sources (uses)	-	-	-
Beginning fund balances	<u>1,498,239</u>	<u>(94,604)</u>	<u>1,403,635</u>
Ending fund balances	<u>\$ 1,376,792</u>	<u>(67,294)</u>	<u>1,309,498</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 100,724	8,506	109,230
Expenditures	<u>100,968</u>	<u>11,341</u>	<u>112,309</u>
Net	(244)	(2,835)	(3,079)
Beginning fund balances	<u>1,848</u>	<u>10,340</u>	<u>12,188</u>
Ending fund balances	<u>\$ 1,604</u>	<u>7,505</u>	<u>9,109</u>

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the non-instructional and other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

FARRAGUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash	-	112,548	-	112,548
Property tax receivable:				
Current year	1,251	-	513	1,764
Succeeding year	90,000	-	25,028	115,028
Total assets	<u>91,251</u>	<u>112,548</u>	<u>25,541</u>	<u>229,340</u>
Liabilities and Fund Equity				
Liabilities:				
Interfund payable	4,524	-	7,831	12,355
Deferred revenue:				
Succeeding year property tax	90,000	-	25,028	115,028
	<u>94,524</u>	<u>-</u>	<u>32,859</u>	<u>127,383</u>
Fund equity:				
Unreserved, undesignated fund balance	(3,273)	112,548	(7,318)	101,957
Total liabilities and fund equity	<u>91,251</u>	<u>112,548</u>	<u>25,541</u>	<u>229,340</u>

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	73,693	-	30,224	103,917
Other	42	129,998	100	130,140
Total revenues	<u>73,735</u>	<u>129,998</u>	<u>30,324</u>	<u>234,057</u>
Expenditures:				
Instruction:				
Regular instruction	47,461	-	38,068	85,529
Co-curricular instruction	-	129,110	-	129,110
Support services:				
Administration services	-	-	-	-
Plant operation and maintenance	-	-	42,100	42,100
Student transportation	-	-	-	-
Non-instructional programs:				
Food service operations	-	-	-	-
Other expenditures:				
Facility acquisition and construction services	-	-	-	-
Total expenditures	<u>47,461</u>	<u>129,110</u>	<u>80,168</u>	<u>256,739</u>
Excess of revenues over expenditures	26,274	888	(49,844)	(22,682)
Fund balances beginning of year, as restated (note 8)	<u>(29,547)</u>	<u>111,660</u>	<u>42,526</u>	<u>124,639</u>
Balance end of year	<u><u>(3,273)</u></u>	<u><u>112,548</u></u>	<u><u>(7,318)</u></u>	<u><u>101,957</u></u>

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	2,270	18,405	19,915	760
Pep Club	3,920	2,165	3,574	2,511
Jr High Cheerleaders	467	328	204	591
Drama	4,776	2,403	1,962	5,217
French	330	-	1	329
FFA	5,900	13,854	11,083	8,671
FHA	2,273	1,349	2,090	1,532
Yearbook	1,933	7,902	7,626	2,209
Miscellaneous Activities	799	1,397	2,122	74
Vocal Music	4,341	9,486	10,095	3,732
Resale	26,429	27,720	23,382	30,767
Art Resale	783	1,814	2,363	234
Student Council	150	48	44	154
Concessions	491	9,441	9,932	-
Instrumental Music	(48)	3,627	3,504	75
Tournament Fund	8,869	9,035	8,614	9,290
Vending	7,939	2,943	6,142	4,740
Pictures	4,777	580	792	4,565
Greenhouse	-	40	-	40
Class of 2003	473	-	205	268
Class of 2004	1,498	3,311	4,211	598
Class of 2005	2,720	4,858	4,337	3,241
Class of 2006	1,815	3,852	2,114	3,553
Class of 2007	-	2,967	2,356	611
Past Classes	3,824	-	-	3,824
Bad Checks	-	-	11	(11)
Investments	24,996	1,141	662	25,475
Honor Society	839	260	74	1,025
CPR	10	-	-	10
Postage	(914)	1,072	1,695	(1,537)
Total	111,660	129,998	129,110	112,548

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Helen Limbacher Memorial	3,051	40	100	2,991
Harold Penwell Memorial	21,649	285	300	21,634
W.F. & Lucile Dreyer Memorial	1,990	38	-	2,028
Orin Mann Scholarship	1,258	-	1,258	-
Bruce Gruber Memorial	692	-	-	692
Clark-Campbell Memorial	2,602	42	-	2,644
Class of 48 Scholarship	100	-	-	100
Scott Memorial	500	500	500	500
Richards Memorial	500	500	500	500
Total	<u>32,342</u>	<u>1,405</u>	<u>2,658</u>	<u>31,089</u>

See accompanying independent auditor's report.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Funds

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	1,042,526	989,120	912,435	914,508
Special revenue	103,917	66,961	58,652	54,670
Capital projects	159,323	152,936	117,757	32,691
	<u>1,305,766</u>	<u>1,209,017</u>	<u>1,088,844</u>	<u>1,001,869</u>
State sources:				
General	999,729	1,050,434	1,202,565	1,253,016
School nutrition	1,636	1,800	3,011	2,183
	<u>1,001,365</u>	<u>1,052,234</u>	<u>1,205,576</u>	<u>1,255,199</u>
Federal sources:				
General	109,835	66,940	59,883	46,396
Special revenue	-	25,000	-	-
School nutrition	52,168	50,320	53,472	50,591
	<u>162,003</u>	<u>142,260</u>	<u>113,355</u>	<u>96,987</u>
Total	<u>2,469,134</u>	<u>2,403,511</u>	<u>2,407,775</u>	<u>2,354,055</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Farragut Community School District:

We have audited the financial statements of the Farragut Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 2, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Farragut Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year matters have all been resolved except 04-II-B, 04-II-E and 04-II-K.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Farragut Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Farragut Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Farragut Community School District and other parties to whom Farragut Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Farragut Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 2, 2004

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2004.

Recommendation - We recommend that the District annually review the approved depository amounts to ensure that they are not exceeded. These should also be reviewed at the time of any debt issuances.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the amended certified budget amounts in the non-instructional program and other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

FARRAGUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses officials or employees were noted.

04-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Kelly Carey	Drama Coach	\$1,226

The transaction with Board Member Carey does not appear to represent a conflict of interest since the transaction did not exceeded \$2,500 as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

03-II-K Financial Condition - The District's Management Fund had a deficit fund balance of \$3,273 at June 30, 2004. The District's Physical Plant and Equipment Levy had a deficit fund balance of \$7,318 at June 30, 2004.

Recommendation - The District needs to levy sufficient taxes to cover this deficit.

Response - We have taken this action in setting our FY04 budget.

Conclusion - Response accepted.

